



Seattle Multifamily Tax Exemption Program

Why We Did This Audit

Seattle City Councilmember Nick Licata asked us to review the rental portion of the Multifamily Tax Exemption Program (MFTE) to determine whether the program is meeting its goals.

How We Did This Audit

We reviewed relevant state and local laws, Office of Housing (OH) Director's Rules, City MFTE Agreements with developers, and other project documentation.

We interviewed officials from OH, the Department of Planning and Development, the Law Department, the City Council, MFTE developers and property managers, and low income housing non-profit organizations.

We conducted eight MFTE property site visits and viewed both market rate and affordable units.

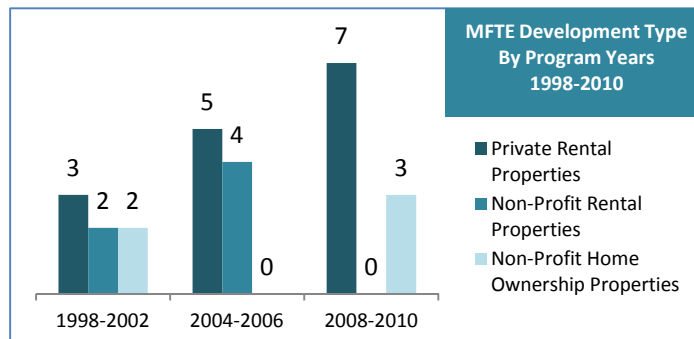
We reviewed data by neighborhood to determine where MFTE developments have occurred compared to where non-tax exempt multifamily housing development has occurred.

We reviewed tax exemption information from the King County Office of Assessments to determine a unit cost for the affordable housing promised by the MFTE property developers.

A copy of the full report can be obtained by calling (206) 233-3801 or visiting the Office of City Auditor's website: <http://www.seattle.gov/audit>.

City Could Improve Its Efforts to Achieve Program Goals And Strengthen Program Compliance and Oversight

Background: In 1998 the City of Seattle created the Multifamily Tax Exemption (MFTE) Program to provide an incentive for the development and rehabilitation of both rental properties and home ownership projects by granting to qualifying applicants a multi-year property tax exemption on the residential portion of the building. In exchange for the tax exemption, rental property owners were required to rent at least twenty percent of their units to qualified tenants at a City-designated affordable rate during the time the property received the tax exemption. In 2010, based on agreements between the City and 15 privately developed rental properties receiving the tax exemptions, the City anticipated that the MFTE properties would provide 1052 affordable units. This amounted to a 2010 total tax exemption of nearly \$1.8 million (\$1,705 per affordable unit), with the City's portion of the tax exemption amounting to nearly \$600,000 (\$545 per affordable unit).



What We Found: We concluded that the City could improve its efforts to achieve the program's goals and strengthen program compliance, administration, and oversight. Specifically:

- Ordinance goals were not prioritized, most lack performance measures and timeframes, and were not linked to program requirements.
- The goal to stimulate development is difficult to measure and requirements to meet this goal have been weakened over time.
- As of 2010, 9 of 39 residential areas targeted for MFTEs had no MFTE projects and had achieved 35 percent or less of their 20 year (2004-2024) residential growth targets, while 4 target areas with MFTE projects have exceeded 100% of their growth targets.
- The City and OH should address several policy issues to ensure affordable housing units are being rented to the target population.
- We found 13 properties non-compliant with at least one program requirement.
- We found several areas in the administration and oversight of the program that could be improved.

Recommendations: We made 19 recommendations to address our audit findings, including:

- Clarifying and possibly prioritizing goals, and tying requirements to goals.
- Addressing policy issues to ensure affordable units are being provided to the target population, including implementing a periodic re-qualification process.
- Improving program oversight including obtaining copies of income verification documents, conducting audits, and doing site visits.
- Improving processes, including automating the application and tax exemption certification processes.
- Changing the Seattle Municipal Code and agreements with property owners to align the program with the City's document retention policy.